

## RESEARCH & DEVELOPMENT TAX CREDITS



### OVERVIEW

Research and Development ('R&D') remains a key driver to the success of many businesses. The UK government continues to provide generous tax reliefs for R&D where a business undertakes a project seeking an advancement in overall knowledge, or enhanced capability in a field of science or technology.

Following the introduction of the 'R&D Expenditure Credit' ('RDEC'), there has been a significant increase in the value of R&D Tax Credits. Larger businesses can now claim a cash repayment.

Although there is increased general awareness, R&D Tax Credits remain an under-claimed relief, both in the number of businesses making claims and in scope.

R&D Tax Credits are not restricted to particular industries. If a company is undertaking some form of innovation, including innovation in support functions as well as in products and services, then qualifying R&D may be taking place. The tax benefits of any claim should not therefore be overlooked.

Using experienced tax professionals, alongside experts in their specialist fields of science or technology, means we have an exceptional success rate in agreeing claims with HMRC. Industry sectors in which we have worked with companies making claims include motorsport, financial services, software, life sciences and high technology production and manufacturing.

### What are the benefits?

There are two schemes in operation: the small or medium sized enterprise ('SME') and a large company scheme in the form of the 'R&D Expenditure Credit' ('RDEC'). From 1 April 2016, the RDEC scheme became mandatory. Until then, large companies have the choice between the RDEC and the large company scheme.

#### (a) The SME scheme

An SME is as an entity that, together with any group companies, has fewer than 500 employees and either:

- an annual turnover not exceeding €100 million, or
- assets on the balance sheet not exceeding €86 million.

SMEs can claim a 'super deduction' of 230% of their qualifying R&D spend. Therefore for every £100 of expenditure, £230 of tax relief is given. For a company making profits, this equates to tax relief at 43.7% of the spend costs (assuming a corporation tax rate of 19%), an additional tax saving of £24.70 for every £100 of spend. For a company making losses, the super deduction can be 'surrendered' for a cash repayment of 14.5% of the amount surrendered. This equates to a refund of over 33p in every pound of R&D spend.

Care must be taken when assessing whether the SME scheme truly applies to the entity as 'partner enterprises' (broadly, commercial companies owning >25% of the equity of the entity) must also be brought into consideration when looking at the size criteria.

# BUSINESS TAX GUIDE

October 2017

## (b) The 'new' RDEC

RDEC works by giving a tax credit of 11% of the actual R&D spend of large companies. The credit is taxable but, for a company paying tax, the credit is automatically offset against the company's tax liability. The effective additional saving, over and above standard corporation tax relief, is £8.91 for every £100 of spend (assuming a corporation tax rate of 19%).

Any tax credit not used to offset a tax liability (where the company is making losses) **can be repaid** directly to the company. See our 'Research & Development Expenditure Credit' Business Tax Guide for more details.

### What R&D activity qualifies?

The R&D activity must seek to achieve an advance in science or technology through the resolution of a scientific or technological uncertainty. In broad terms, the work must be aimed at producing knowledge or a product new to the general knowledge contained within that field of activity or to appreciably improve an existing product.

Essentially, if the solution is not readily obvious to an appropriately qualified and competent professional, then it is likely that the R&D activity will qualify for relief.

### What expenditure qualifies?

Only certain categories of R&D expenditure qualifies:

- staffing costs (including agency costs);
- software and consumables used in the R&D;
- subcontracted expenditure (for SMEs);
- certain indirect expenditure.

There are also generous allowances available for capital expenditure incurred for the purpose of conducting qualifying R&D activity, which give 100% relief in the year of spend.

### How to make a claim

Claims must be made as part of the corporation tax return. There is a strict time limit of two years from the end of the relevant accounting period beyond which claims may not be made. If the company has already submitted its corporation tax return, an amended return can be submitted including the R&D claim, but again only within the normal two year time limits.

### How can Rawlinson & Hunter help?

Rawlinson & Hunter can assist in identifying whether a project will qualify for R&D relief, and can prepare a detailed R&D tax report for submission to HMRC in order to claim the relief. We will assign a member of our team to liaise directly with HMRC on the R&D claim, and they will work to resolve any queries as they arise, and seek to secure the success of the claim. Many companies miss out on claiming R&D relief because they do not fully identify those activities or costs which qualify for the relief.

*If you would like to find out whether and to what extent your company and activities may be eligible, please call the Rawlinson & Hunter partner who normally acts for you. Where you are not one of our regular clients, please contact Craig or Andrew Shilling, who would be delighted to discuss this with you in more detail.*

#### Craig Davies

Direct Dial: (+44) 20 7842 2136

Email: [craig.davies@rawlinson-hunter.com](mailto:craig.davies@rawlinson-hunter.com)

#### Andrew Shilling

Direct Dial: (+44) 20 7842 2135

Email: [andrew.shilling@rawlinson-hunter.com](mailto:andrew.shilling@rawlinson-hunter.com)

And at

#### Partners

Chris Bliss FCA  
Mark Harris FCA  
David Barker CTA  
Kulwam Nagra FCA  
Paul Baker ACA  
Sally Ousley CTA  
Andrew Shilling FCA  
Craig Davies FCA  
Graeme Privett CTA  
Chris Hawley ACA  
Phil Collington CTA  
Toby Crooks ACA  
Michael Foster CTA  
Paul Huggins ACA  
Trevor Warmington CTA

#### Directors

Lynnette Bober FCA  
Karen Doe  
Lynne Hunt FCA  
Neil Insull ACA  
Gillian Lawrence ACA  
Nigel Medhurst AIT  
Al Nawrocki CTA  
Alex Temlett CA

#### Consultants

Philip Prettejohn FCA  
Ralph Stockwell FCA

The information contained in this briefing does not constitute advice and is intended solely to provide the reader with an outline of the provisions. It is not a substitute for specialist advice in respect of individual situations.

Rawlinson & Hunter is a partnership regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.